

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

**UNITED STATES POSTAL SERVICE INTERROGATORIES AND REQUESTS
FOR PRODUCTION OF DOCUMENTS TO VAL-PAK DIRECT MARKETING
SYSTEMS, INC., VAL-PAK DEALERS' ASSOCIATION, INC., AND CAROL
WRIGHT PROMOTIONS, INC. WITNESS HALDI
(USPS/VP-CW-T1—24-29)**

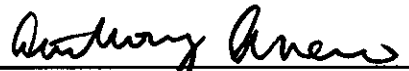
Pursuant to rules 25 and 26 of the Rules of Practice, the United States
Postal Service directs the following interrogatories and requests for production of
documents to Val-Pak Direct Marketing Systems, Inc., Val-Pak Dealers'
Association, Inc., and Carol Wright Promotions witness Haldi: USPS/VP-CW-
T1—24-29.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


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June 19, 2000

USPS/VPCW-T1-24.

- a. Please refer to page 2 of the A/P 8 Financial and Operating Statements (FOS) and confirm that the Postal Service is currently \$333.1 million below its planned net income through A/P 8 PFY 2000. Please also confirm that the A/P 9 FOS, which will be available by the deadline for answering this question, shows that the Postal Service incurred a loss of \$154 million in A/P 9 and the year-to-date plan shortfall grew to \$420.4. If you do not confirm, please explain.
- b. Please confirm that even if the Postal Service can reverse this trend of below plan results and achieve its plan for the remainder of the year, it will suffer a plan shortfall and incur a loss for FY 00, instead of the planned net income of \$100 million reflected in the response to ANM/USPS -T9-41. If you do not confirm, please explain.

USPS/VPCW-T1-25. Please refer page 33, lines 2 and 3, of your testimony, where you state that the Postal Service's capital investments in excess of depreciation should be funded through borrowing and "not through surpluses intentionally created by a deliberately excessive allowance for contingency."

- a. Is there some basis in fact for your allegation that surpluses were intentionally created to fund capital investments by deliberately inflating the contingency? If so please provide any factual support that the contingency has been deliberately inflated to fund capital investments.
- b. Please confirm that borrowing results in interest expense and adds to the cost of capital investments. If you do not confirm please explain.
- c. Please confirm that the cost of interest is borne by rate payers in the form of higher rates. If you do not confirm please explain.

USPS/VPCW-T1-26. Please refer to page 32, lines 16-19, where you state that "if the Postal Service's capital investment program were approaching the statutory cap with respect to its borrowing limit, and any shortfall in cash flow would operate to curtail that program, there could indeed be a reason for a significant contingency allowance."

- a. Is it your testimony that an appropriate use of the contingency is to fund capital investments when borrowing for capital investments is not an option? If your answer is other than yes, please reconcile your answer to your statement above.
- b. Please assume hypothetically that the Postal Service is projecting a test year before rates net income before including a RPYL and a contingency, has no available borrowing authority, and will generate insufficient cash to fully fund its capital investments. Under this scenario should the Postal Service add a contingency to create a test year net loss and then file for higher rates in order to fund its capital investments? Please explain your answer.

Is it your testimony that the Postal Reorganization Act permits the use of the contingency to fund capital investments? If your answer is other than no please provide the PRA cite supporting your position.

USPS/PCW-T1-27. Refer to your testimony on page 14 lines 18-20 where you state that "this clearly results in another serious mismatch, since costs of DAL-accompanied letter-shaped mail are systematically charged to letters, while revenues, pieces and weights are systematically charged to flats."

- a) In drawing this conclusion, did you consider analyzing the IOCS data files provided by witness Ramage?
- b) Would you adhere to your statement even if the data file provided by witness Ramage showed that in FY98 there are zero tallies where the shape in Field F9635 is a letter (IOCS Q22A) and the Field F135 is "Y" (indicating the employee is handling a DAL)? Please explain your response.

USPS/PCW-T1-28. Refer to your testimony on page 11 lines 6-11, where you state that:

[w]ithin Standard A Mail, Postal Service data systems systematically overstate the cost of letters while the cost of flats is correspondingly understated. This situation is caused by a mismatch between (i) the way the RPW system records revenue, volume and weight on the one hand and (ii) the way that the IOCS develops mail processing and city carrier in-office costs on the other.

- a) Confirm that your conclusion that letter costs are overstated assumes that the unit cost of Standard Mail A are based on RPW volumes.
- b) Confirm that the volumes used to calculate the unit cost of letters and flats are from PERMIT and not RPW (see response to interrogatory VPCW/USPS-2).

USPS/PCW-T1-29. Refer to your testimony at page 12 lines 12-13 where you state that "[f]rom a rate category perspective, the IOCS data are not correct." (Footnote omitted).

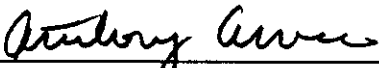
- a) Please confirm that the another way to account for the fact that some letter-shaped pieces actually pay the nonletter rate is by moving both the cost of letters greater than 3.0 or 3.5 ounces and the corresponding number of letter shaped pieces as recorded by PERMIT to the cost of nonletters.
- b) Assume for the purpose of this question that 3.5 ounces is a reasonable proxy for the breakpoint.
 - (i) Please confirm that the total cost of letter-shaped ECR pieces weighing more that 3.5 ounces is \$13,922 (in thousands) and the corresponding volumes for these pieces are 66,478,655 according to USPS LR-I-92, Section 2 pages 14-5. If not confirmed please provide the correct numbers and the sources for these figures.

- (ii) Please confirm that the total cost of flat-shaped ECR pieces is \$1,512,906 (in thousands) and the corresponding volumes for these pieces are 20,455,078,077 according to USPS LR-I-92, Section 2 pages 17-8. If not confirmed, please provide the correct numbers and the sources for these figures.
 - (iii) If subparts (i) and (ii) are confirmed, please confirm that adding the cost of letters weighing more than 3.5 ounces (\$13,922) to the total cost of ECR flat-shaped mail (\$1,512,906) results in a cost of \$1,526,828 (in thousands). If subparts (i) and (ii) are not confirmed, please provide the above calculations with the numbers provided in subparts (i) and (ii).
 - (iv) Please confirm that adding the volume of letters weighing more than 3.5 ounces (66,478,655) to the total volume of ECR flat-shaped mail (20,455,078,077) results in a volume of 20,521,566,662. If subparts (i) and (ii) are not confirmed, please provide the above calculations with the numbers provided in subparts (i) and (ii).
 - (v) If subparts (iii) and (iv) are confirmed, please confirm that \$1,526,828 divided by 20,521,566,662 multiplied by 1000 is \$0.0744. If subparts (iii) and (iv) are not confirmed please calculate the quotient of the figures provided in subparts (iii) and (iv).
 - (vi) Please confirm that, according to Table 3 in USPS-T-29, the average ECR flat-shaped piece cost \$0.0740 and the average letter-shaped piece cost \$0.0685, for a difference of \$0.0054. If not confirmed, please explain.
 - (vii) Please confirm that, according to Table 3 in USPS-T-29, the average ECR letter-shaped piece weighing less than 3.5 ounces cost \$0.0678.
 - (viii) If subparts (v) and (vii) are confirmed, please confirm that the difference between the unit cost of letters weighing less than 3.5 ounces of \$0.0678 and the unit cost of flats which include the cost and volume of letters weighing more than 3.5 ounces as calculated in subpart d of \$0.0744 is \$0.0066. If subparts (v) and (vii) are not confirmed, please calculate the difference between the figures provided in subparts (vii) and (v).
 - (ix) If subparts (vi) and (viii) are confirmed, please confirm that the unit cost difference between \$0.0066 and \$0.0054 is \$0.0012. If subparts (vi) and (viii) are not confirmed please calculate the difference between the figures provided in subparts (viii) and (vi).
- c) Assume for the purpose of this question that 3.0 ounces is a reasonable proxy for the breakpoint.
- (i) Please confirm that the total cost of letter-shaped ECR pieces weighing more than 3.0 ounces is \$36,415 (in thousands) and the corresponding volumes for these pieces are 216,382,951 according to USPS LR-I-92, Section 2 pages 14-5. If not confirmed please provide the correct numbers and the source for those figures.

- (ii) Please also confirm that the total cost of flat-shaped ECR pieces is \$1,512,906 (in thousands) and the corresponding volumes for these pieces are 20,455,078,077 according to USPS LR-I-92, Section 2 pages 17-8. If not confirmed please provide the correct numbers and the source for those figures.
 - (iii) If subparts (i) and (ii) are confirmed, please confirm that adding the cost of letters weighing more than 3.0 ounces (\$36,415) to the total cost of ECR flat-shaped mail (\$1,512,906) results in a cost of \$1,549,322 (in thousands).
 - (iv) Please confirm that adding the volume of letters weighing more than 3.0 ounces (216,382,951) to the total volume of ECR flat-shaped mail (20,455,078,077) results in a volume of 20,671,460,958. If subparts (i) and (ii) are not confirmed please provide the above calculations with the numbers provided in subparts a and b.
 - (v) If subparts (iii) and (iv) are confirmed, please confirm that \$1,549,322 divided by 20,671,460,958 and multiplied by 1000 is \$0.0750. If subparts (iii) and (iv) are not confirmed please calculate the quotient of the figures provided in subparts (iii) and (iv).
 - (vi) Please confirm that, according to Table 3 in USPS-T-29, the average ECR flat-shaped piece cost \$0.0740 and the average letter-shaped piece cost \$0.0685, for a difference of \$0.0054.
 - (vii) Please confirm that, according to Table 3 in USPS-T-29, the average ECR letter-shaped piece weighing less than 3.0 ounces costs \$0.0669.
 - (viii) If subparts (v) and (viii) are confirmed, please confirm that the difference between the unit cost of letters weighing less than 3.0 ounces of \$0.0669 and the unit cost of flats which include the cost and volume of letters weighing more than 3.0 ounces as calculated in subpart (v) of \$0.0750 is \$0.0081. If subparts (v) and (vii) are not confirmed, please calculate the difference between the figures provided in subparts (vii) and (v).
 - (ix) If subparts (vi) and (viii) are confirmed, please confirm that the unit cost difference between \$0.0081 and \$0.0054 is \$0.0027. If subparts (vi) and (viii) are not confirmed, please calculate the difference between the figures provided in subparts (vi) and (viii).
- d) Please confirm the calculations in subparts b) and c) show that the letter/flat differential is overstated by at most \$0.0027. Please explain if not confirmed.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



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June 19, 2000